STATE of INDIANA

DEPARTMENT OF REVENUE

INDIANA GOVERNMENT CENTER NORTH
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INDIANAPOLIS, IN 46204-2253

Lake County LOIT FAQs

Lake County has passed a local option income tax (county tax). What will that mean to taxpayers in Lake County?
Lake County residents working in Indiana should expect to see Lake County tax withheld from their paychecks starting in October, which is when it goes into effect.

Individuals who make estimated tax payments during the year may need to increase the amount paid to accommodate the new tax.

Finally, the county tax they owe will be figured on the individual income tax return that is filed during the 2014 tax season. Any additional amount that may be due will be paid when filing the return; likewise, any overpayment will be refunded.

What is the Lake County tax rate?
Lake County has adopted a 1.5% resident rate (.5% nonresident rate). Because the tax did not become effective until October, a prorated rate of .375% resident rate (.125% nonresident rate) will be used for figuring Lake County tax on the 2013 income tax returns.

How will the tax be collected?

- **Withholding**
  Indiana employers should begin withholding a 1.5% Lake County tax on Lake County resident's wage income beginning in October 2013. If the Lake County resident works in a different Indiana county, their employer should stop withholding tax for the other county and begin withholding for Lake County in October.
- **Estimated tax**
  It is recommended that Lake County residents who are making estimated tax payments increase their 3rd and/or 4th installment payments to reflect the additional tax. Here's an example of how to do it:
  - Taxpayer figured he owed $1,020 in estimated state tax ($30,000 income X .034 = $1,020).
  - He should multiply the same $30,000 times the 2013 *effective* Lake County tax rate, which is .00375.
  - This yields $113 in county tax due.
  - He may choose to increase his 3rd and 4th installment payments by $56 and $57, respectively; he may choose to increase just the 4th installment by $113; or, he may choose to do nothing.
- **Filing tax return**
  Ultimately, the individual's county tax will be figured when filing the Indiana individual income tax return due in 2014.

Updated Oct. 3, 2013

Lake County didn't adopt a tax until Oct. 1, 2013. How will my 2013 income be taxed? Will I be taxed for the whole year?
The Indiana Code is very clear as to how income is to be taxed the first year a county adopts a tax. Basically, the same income that is taxed for state adjusted gross income tax purposes is also taxed for county tax purposes. However, instead of owing county tax at the full resident rate of .015, a partial-year rate (a prorated rate) will be used.

> **Rate proration** – The Lake County rate imposed is .015, effective Oct. 1, 2013. Because it was in effect for only three months of the 12-month year, 3/12 of the .015 rate, or .00375, will be the effective rate for the initial year.
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> *Example.* Jenna earned $45,000 wage income. Her husband Mark had $50,000 net farm income. They received $2,500 taxable income from the sale of stock in November of 2013. Their total income is $97,500. They claimed $4,500 exemptions and a $3,000 homeowner's property tax deduction, leaving a $90,000 state taxable income, all of which is subject to Lake County tax. When they file their 2013 state tax return, the Lake County tax will be figured at the prorated rate of .00375.

Where is this information in the law?
The Lake LOIT information can be found under IC 6-3.5-1.1-5 CAGIT; IC 6-3.5-6-15 COIT; IC 6-3.5-7-8 CEDIT.

What if an individual lives in one county but works in a different one? What tax rate is used?
In general, counties choose a tax rate when adopting a county tax. Residents of the county as of Jan. 1 of the tax year will owe county tax at the adopted resident (or full) rate. Individuals who live out-of-state but work in an Indiana county as of Jan. 1 of the tax year will owe county tax at the nonresident rate.

What will the funds be spent on?
In general, the funds may be used to pay
- certain costs of facilities and buildings, including county courthouse
- for operating a jail and juvenile detention center
- loans/retire bonds/pay leases used for economic development and/or capital projects
- to provide certain homestead credits
- to foster economic development, new technology, industrial and commercial growth, diversification of industry and commerce, etc.
- to establish a regional venture capital fund
- for public safety, etc.

What exactly do I have to pay county tax on?
County tax is assessed on the same kind of income as is Indiana's adjusted gross income tax.

Here is a list of some of the kinds of income subject to Indiana county income tax:
- wages
- interest
- dividends
- alimony received
- business income
- capital gains
- IRA distributions
- pensions and annuities
- rental real estate, royalties, partnership, S corporation and trust income
- farm income
- unemployment compensation

Here is a list of some of the kinds of income NOT subject to Indiana county income tax:
- Social Security income
- railroad retirement income issued by the U.S. Railroad Retirement Board (both tier I and tier II)
- military combat zone pay

Why is the Indiana Department of Revenue imposing this new tax?
The department only implements what the General Assembly and local councils pass. If you would like to speak to someone further about the legislation and county rates, you should contact your local representative and your county officials.

Special circumstances for Lake County. Lake County is the last of Indiana's 92 counties to adopt a county tax. It is possible that a Lake County resident works in another Indiana county, and the employer is currently withholding county tax for that county (at the nonresident rate). The withholding agent should start withholding Lake County tax at the resident rate beginning in October of 2013.

Example. Steve's county of residence imposed a county tax for the first time this year. During the year he worked in an adjacent Indiana county that has a tax, and tax was withheld for that county. Because a county tax is deemed to be in effect the entire year for the first year it is adopted, he will owe tax to his county of residence, NOT to the county where he worked. Note – Steve will claim the total amount withheld (for both the county where he worked and the county where he lived) on the county withholding credit line on his income tax return.